



SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

April 22, 2011

LETTER FOR THE ADMINISTRATOR, U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

SUBJECT: USAID Is Responsive to SIGIR Recommendations (SIGIR 11-017)

The Inspector General Act of 1978, as amended, requires SIGIR to identify in its semiannual report each significant recommendation described in previous semiannual reports on which corrective action has not been completed. We conducted this review to follow up on those recommendations SIGIR made to the U.S. Agency for International Development (USAID) to determine the status of corrective actions. The objectives of this report are to determine whether USAID has a system to track and oversee the status of SIGIR recommendations, and has taken appropriate action. Our review found that USAID has an effective and well-managed audit follow-up process and has taken appropriate actions on all but two SIGIR recommendations to date.

Background

The Office of Management and Budget (OMB) Circular A-50, *Audit Followup*, dated September 29, 1982, provides agency guidance for following up on and resolving audit findings and recommendations. The Circular states that the agency's audit follow-up official has responsibility for ensuring that (1) systems of audit follow up, resolution, and corrective action are documented and in place, (2) timely responses are made to all audit reports, (3) disagreements are resolved, (4) corrective actions are actually taken, and (5) reporting requirements are met.

OMB Circular A-50 and the Inspector General Act also provide the guidance and requirements for agency responses and follow up to audit reports. The Circular states that responses to audit reports are written comments by agency officials indicating agreement or disagreement on reported findings and recommendations. Comments indicating agreement on final reports shall include planned corrective actions and, where appropriate, dates for achieving actions. Comments indicating disagreement shall explain fully the reasons for disagreement.

The Inspector General Act defines other terms and requirements used in the audit follow-up process. For example the term "management decision" is defined as "the evaluation by agency management of the findings and recommendations included in an audit report and the issuance of a final decision by management concerning its response to such findings and recommendations, including actions concluded to be necessary." The Act defines the term "final action" as "the completion of all actions that agency management has concluded, in its management decision, are necessary with respect to the findings and recommendations included in an audit report; and in the event that the management concludes no action is necessary, final action occurs when a management decision has been made."

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SIGIR defines open recommendations as those that the agency (1) agreed with in its response to the audit report and provided corrective action plans that need to be confirmed as having been taken, (2) did not indicate that it agreed or disagreed with in its response, or (3) did not respond to before the final report was issued. According to OMB Circular A-50, it is incumbent on both the Office of the Inspector General and agency management to work together to address open recommendations by tracking and coordinating their resolution.

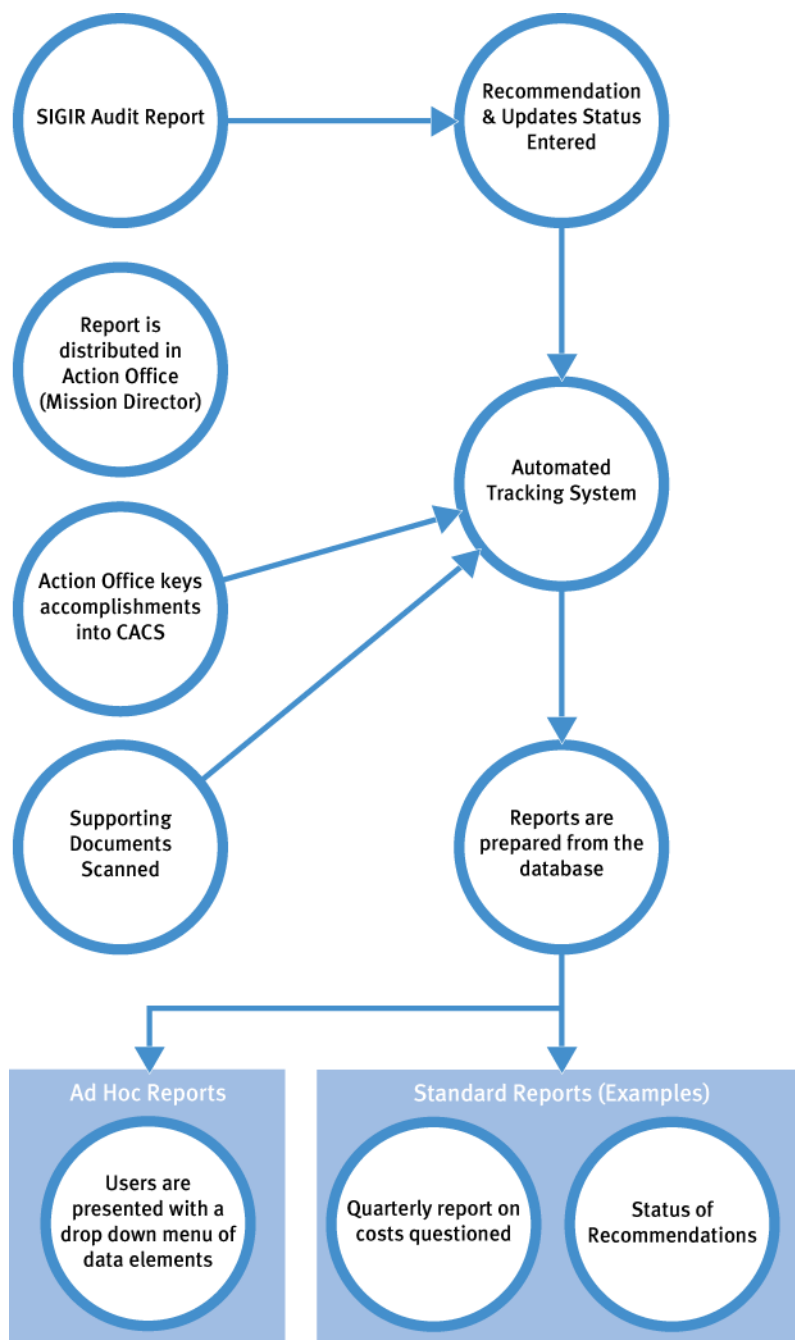
Actions Confirmed Taken On All but Two Open Recommendations

SIGIR's follow-up review found that USAID has taken appropriate final actions on all but two open SIGIR recommendations to date. Between October 2004 and January 2011, SIGIR made 19 recommendations to USAID. At the start of this audit in January 2011, we had closed 13 recommendations, but 6 remained open, which required additional research to determine their status. Our review has resulted in the closure of four of the six recommendations, and SIGIR is working with USAID officials to close the remaining two recommendations. Appendix B summarizes the results of our findings for four open recommendations with which the agency concurred and has taken action.

Effective and Well-Managed Audit Follow-up Process

We found that USAID has an effective and well-managed follow-up process and tracking system for SIGIR audit reports and recommendations. USAID's audit follow-up policies and procedures are contained in its Automated Directives System 595, *Audit Management Program*, which incorporates OMB Circular A-50 audit follow-up requirements. Specifically, the Directives provide the procedures for managing the agency's audit tracking system. Figure 1 illustrates USAID's current follow-up process for audit reports and recommendations.

Figure 1—USAID’s Audit Follow-up Process



Source: SIGIR analysis of USAID audit follow-up process.

According to the agency's directives, USAID's Management Control Review Committee, chaired by the Deputy Administrator, provides oversight for the identification, correction, and reporting of internal control and audit deficiencies. The Bureau for Management, Office of the Chief Financial Officer, Audit Performance and Compliance Division is responsible for monitoring agency responses and otherwise manages USAID's automated follow-up tracking process called the Consolidated Audit and Compliance Tracking System.

USAID begins its audit recommendation follow-up process once SIGIR issues an audit report containing recommendations for agency action. Once a SIGIR report is issued, USAID's Iraq Office, Bureau of Middle East, adds that report and recommendations to a master database in its audit tracking system. To monitor the status of USAID implementation of SIGIR recommendations, the Division requires that the Iraq Office provides periodic status reports. In SIGIR's case, the Iraq Office is specifically responsible for ensuring timely and appropriate agency responses, audit resolutions, and audit follow up to SIGIR audit reports and recommendations. The Division then records this information into its tracking system.

We compared SIGIR's database on the status of recommendations to that prepared by USAID and found that USAID had generally followed its procedures. As previously discussed, we also found that we could have closed four of our six open recommendations had USAID provided us with follow-up action information contained in its audit tracking system. However at this time, the USAID has no process or procedures to coordinate or provide audit follow-up information to SIGIR, as required by OMB Circular A-50.

Conclusions

USAID has taken appropriate corrective actions on four of the six open SIGIR recommendations which we have closed and is working with SIGIR to resolve the remaining two. In addition, we found that the agency's audit tracking system is effective and well-managed. Finally, USAID and SIGIR do not currently have a process to share audit follow-up information; therefore, audit recommendations are unnecessarily remaining open. We believe that it would be in the best interest of both agencies to coordinate and periodically share audit follow-up information in each other's databases in order to reconcile any differences and close recommendations in a timely manner.

Recommendations

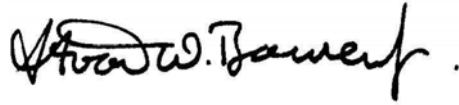
We recommend that the Administrator, U.S. Agency for International Development, direct the Assistant Administrator for Management to develop a process to periodically provide SIGIR information on the status of actions to implement SIGIR recommendations.

Management Comments

USAID management concurred with SIGIR's recommendation. The USAID management response is printed in its entirety in Appendix E.

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We appreciate the courtesies extended to the SIGIR staff. For additional information on the report, please contact Glenn D. Furbish, Assistant Inspector General for Audits (Washington, DC), (703) 604-1388/ glenn.furbish@sigir.mil or Jason Venner, Principal Deputy Assistant Inspector General for Audits (Washington, DC), (703) 607-1346/ jason.venner@sigir.mil.

A handwritten signature in black ink, reading "Stuart W. Bowen, Jr." with a period at the end. The signature is written in a cursive, flowing style.

Stuart W. Bowen, Jr.
Inspector General

cc: Mission Director, U.S. Agency for International Development

Appendix A—Scope and Methodology

In January 2011, the Special Inspector General for Iraq Reconstruction (SIGIR) announced Project 1104 to review the status of significant audit recommendations made by SIGIR to the U.S. Agency for International Development (USAID). We conducted this review to follow up on those recommendations SIGIR made to the U.S. Agency for International Development (USAID) to determine the status of corrective actions, and to determine whether USAID has a system to track and oversee the status of SIGIR recommendations. This audit was performed under the authority of Public Law 108-106, as amended, which also incorporates the duties and responsibilities of inspectors general under the Inspector General Act of 1978. SIGIR conducted its work during March 2011 in the United States and in Baghdad, Iraq.

To accomplish our audit objectives, we obtained and analyzed documentation provided by the USAID Management Control Review Committee and the Bureau for Management, Office of the Chief Financial Officer, Audit Performance and Compliance Division, who oversee the audit follow-up process and manage the agency's audit tracking and follow-up system. This included policies and procedures for managing the audit follow-up process and also information on the status of SIGIR's open recommendations. We also met with the USAID's Iraq Office, Bureau of Middle East, that is specifically responsible for ensuring timely and appropriate agency responses, audit resolutions, and audit follow up to SIGIR audit reports and recommendations. Both the Management Control Review Committee and the Middle East Officer were able to provide explanations on actions taken and the necessary supporting documentation. In addition, the officials provided information on and from its audit tracking and follow-up system.

We conducted this audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Internal Controls

In conducting the audit, we assessed USAID's policies and procedures for its audit follow-up process and found them to be adequate. The results of this review are presented in the body of the report.

Use of Computer-processed Data

We used computer-processed data from USAID's audit tracking system and confirmed its reliability using USAID's written responses and supporting documentation of corrective actions.

Prior Coverage

We reviewed the following SIGIR audit reports:

Special Inspector General for Iraq Reconstruction

Plans To Preserve Iraq Reconstruction Program and Contract Records Need To Be Improved, SIGIR 10-021, 7/30/2010.

Agencies Need Improved Financial Data Reporting for Private Security Contractors, SIGIR 09-005, 10/30/2008.

Cost, Outcome, and Oversight of Local Governance Program Contracts with Research Triangle Institute, SIGIR 09-003, 10/21/2008.

Controls Over Unliquidated Obligations in the Iraq Relief and Reconstruction Fund, SIGIR 07-011, 10/23/2007.

Appendix B—Status of USAID Corrective Actions or Final Management Decisions on Open Recommendations

Number	Recommendation	Agency Corrective Action or Final Management Decision
07-011-2	We recommend that USAID and DoS develop written procedures requiring finance offices to document their reviews of unliquidated obligations and the reasons for retaining an obligation including identifying a continuing need.	USAID provided SIGIR documentation that showed that the agency issued Mission Order 08-621-001, 1311 Review Procedures on December 15, 2008.
09-003-1	We recommend that USAID's Mission Director—Iraq take the following actions: Direct USAID officials to establish a timeframe for completing the operations manual that provides guidance to activity managers overseeing contractor performance.	USAID provided SIGIR documentation that showed that action had been taken by these means; 1) the issuance of guidelines for the Provincial Reconstruction Team (PRT) representatives, 2) a comprehensive orientation program for new PRT representatives, and 3) recurring PRT coordination meetings with all representatives multiple times a year that cover roles and responsibilities of the PRT representatives.
09-003-2	We recommend that USAID's Mission Director—Iraq take the following actions: Direct the CTO to review and approve RTI vouchers and invoices as required by the contract. Maintain documentation of the approvals in the contract file.	USAID provided SIGIR documentation that showed that immediate action was taken as follows: "The CTO, Controller and Contracting Officer discussed the contract requirement for administrative review of expenditures. As required by the contract, the contractor will continue to submit an SF 1034 on a monthly basis with accompanying expenditure details which will be administratively reviewed by the CTO.
09-003-3	We recommend that USAID's Mission Director—Iraq take the following actions: Direct the contracting officer to take action to recover the General and Administrative fee and the fixed fee paid to RTI on the \$185,000 in lost funds.	USAID provided SIGIR documentation that showed that the contracting officer made a determination concerning the allowability of G&A and fee associated with the cash loss referenced in this finding, issued demand letter for the amount of \$56,905.57 to RTI on October 22, 2008, and recovered that amount.
09-005-2	SIGIR recommends that the Secretaries of Defense and State and the Administrator, USAID, direct program managers to consider the costs of security relative to the expected benefits for all new projects.	SIGIR is working with USAID to resolve this recommendation.
10-021-7	SIGIR recommends that the Administrator, USAID, provide guidance to its Iraq Mission on the preservation of reconstruction records; and the Mission Director, USAID Iraq, develop plans for the	SIGIR is working with USAID to resolve this recommendation.

Number	Recommendation	Agency Corrective Action or Final Management Decision
	preservation of reconstruction records in accordance with this guidance.	

Notes:

^a The first five digits of the recommendation number is the report number.

Source: Recommendations to USAID from SIGIR reports issued in 2007, 2008, and 2010.

Appendix C—Acronyms

Acronym	Description
OMB	Office of Management and Budget
SIGIR	Special Inspector General for Iraq Reconstruction
USAID	United States Agency for International Development

Appendix D—Audit Team Members

This report was prepared and the review conducted under the direction of Glenn Furbish, Assistant Inspector General for Audits, Office of the Special Inspector General for Iraq Reconstruction.

The staff members who conducted the review and contributed to the report include:

Bill Bedwell

Allan Jones

Robert Whiteley

Appendix E—Management Comments



April 20, 2011

Mr. Stuart Bowen
Special Inspector General for Iraq Reconstruction
400 Army Navy Drive
Arlington, VA 22202

Dear Mr. Bowen:

I am pleased to provide the U.S. Agency for International Development's (USAID) formal response on the draft SIGIR audit report "USAID Is Responsive to SIGIR Recommendations." (SIGIR 11-017)

Recommendation No 1:

We recommend that U.S. Agency for International Development, Assistant Administrator for Management direct the appropriate offices to develop a process to periodically provide SIGIR information on the status of actions to implement SIGIR recommendations.

USAID concurs with this recommendation. USAID through the Middle East Bureau's Iraq Office will provide SIGIR regular updates on open recommendations on a semi-annual basis after the second quarter of a fiscal year and after the fourth quarter of the fiscal year.

In addition, as mentioned in the audit report, USAID will continue to work with SIGIR on closing out the two open recommendations listed in the report.

Thank you for the opportunity to respond to the SIGIR final report and for the courtesies extended by your staff in the conduct of this audit review.

If you have any questions concerning this report, please feel free to contact me.

U.S. Agency for International Development
1300 Pennsylvania Avenue, NW
Washington, DC 20523
www.usaid.gov



Sincerely,

A handwritten signature in blue ink that reads 'George Laudato'. The signature is fluid and cursive, with the first name 'George' and last name 'Laudato' clearly legible.

George Laudato
Special Assistant to the Administrator for the
Middle East

U.S. Agency for International Development
1300 Pennsylvania Avenue, NW
Washington, DC 20523
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Appendix F—SIGIR Mission and Contact Information

SIGIR’s Mission	<p>Regarding the U.S. reconstruction plans, programs, and operations in Iraq, the Special Inspector General for Iraq Reconstruction provides independent and objective:</p> <ul style="list-style-type: none">• oversight and review through comprehensive audits, inspections, and investigations• advice and recommendations on policies to promote economy, efficiency, and effectiveness• deterrence of malfeasance through the prevention and detection of fraud, waste, and abuse• information and analysis to the Secretary of State, the Secretary of Defense, the Congress, and the American people through Quarterly Reports
Obtaining Copies of SIGIR Reports and Testimonies	<p>To obtain copies of SIGIR documents at no cost, go to SIGIR’s Web site (www.sigir.mil).</p>
To Report Fraud, Waste, and Abuse in Iraq Relief and Reconstruction Programs	<p>Help prevent fraud, waste, and abuse by reporting suspicious or illegal activities to the SIGIR Hotline:</p> <ul style="list-style-type: none">• Web: www.sigir.mil/submit_fraud.html• Phone: 703-602-4063• Toll Free: 866-301-2003
Congressional Affairs	<p>Hillel Weinberg Assistant Inspector General for Congressional Affairs Mail: Office of the Special Inspector General for Iraq Reconstruction 400 Army Navy Drive Arlington, VA 22202-4704 Phone: 703-428-1059 Email: hillel.weinberg@sigir.mil</p>
Public Affairs	<p>Deborah Horan Office of Public Affairs Mail: Office of the Special Inspector General for Iraq Reconstruction 400 Army Navy Drive Arlington, VA 22202-4704 Phone: 703-428-1217 Fax: 703-428-0817 Email: PublicAffairs@sigir.mil</p>